

Internal Revenue Service
District Director

Department of the Treasury
915 2nd Ave. MSW540
Seattle, WA 98174

Employer Identification Number:
[REDACTED]

Person to Contact - ID#: [REDACTED]

Telephone Number:
[REDACTED]

Refer Reply to:
[REDACTED]

Date:

OCT 07 1999

Dear Sir or Madam:

We have considered your application [REDACTED] for exemption from Federal income tax under the provisions of section 501(c)(6) of the Internal Revenue Code of 1986 and its Regulations.

Consideration was given to whether [REDACTED] for exemption under other subsections of section 501(c) of the Internal Revenue Code. We concluded that you do not.

As your organization has not established exemption from Federal income tax, it will be necessary for you to file an annual income tax return on Form 1041 if you are a trust or form 1120 if you are a corporation or an unincorporated association.

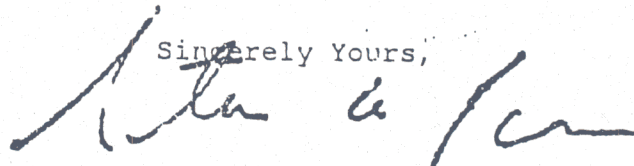
If you are in agreement with our proposed denial, please sign and return one copy of the enclosed Form 6018, "Consent to Proposed Adverse Action". You have the right to protest this proposed determination if you believe that it is incorrect. To protest, you should submit a written appeal giving the facts, law and other information to support your position as explained in the enclosed Publication 892, "Exempt Organizations Appeal Procedures for Unagreed Issues". The appeal must be submitted within 30 days from the date of this letter and must be signed by one of your principal officers.

You may request a hearing with a member of the officer of the Regional Director of Appeals when you file your appeal. If a hearing is requested, you will be contacted to arrange a date for it. The hearing may be held at the Regional Office, or, if you request, at any mutually convenient District Office. If you are to be represented by someone who is not one of your principal officers, he or she must file a proper power of attorney and otherwise qualify under our Conference and Practice Requirements as set forth in Section 601.502 of the Statement of Procedural Rules. See Treasury Department Circular No. 230.

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If we do not hear from you within the time specified, this will become our final determination.

Sincerely Yours,



----- Steven J. Jensen
District Director

Enclosures: 3

[REDACTED]

Enclosure I

organization was incorporated on [REDACTED], under the laws of [REDACTED].

Articles of Incorporation provide that the purposes of the organization are:

"...promoting the common interest of its members, which is the operation of [REDACTED] and [REDACTED] located in [REDACTED]. The corporation shall not engage in any regular business ordinarily carried on for profit."

"Activities of the corporation shall be directed to the improvement of business conditions for [REDACTED] and [REDACTED] as a whole and other related areas of business, but those activities shall not involve the performance of specific services for individuals within or without the corporation unless the service is merely incidental to the corporation's main purpose. Particular services may include, but are not limited to: promotion and fostering business relations among those involved in the operation of [REDACTED] and [REDACTED] ranches; encouragement of tourist travel and conventions; protection of the corporation and its members against any and all activities, operations, or procedures which are inimical to the best interest of their common business; encouragement and promotion of legislation intended to stabilize, aid or encourage the [REDACTED] and [REDACTED] ranch business; discouragement and protest against legislation calculated to, or which may impede or detrimentally affect said business; encouragement of the establishment and maintenance of high standards of character and efficiency in the management and personnel of said business; cooperation with other organizations when deemed advisable for aiding the common interest of the corporation and the furnishing of ideas and materials helpful to the improvement of the corporation's business."

According to Article II of your Bylaws, membership requirements are as follows:

"The corporation shall have two classes of members. Members shall be only those individuals, partnerships, or corporations engaged in bona fide operation of dude and guest ranches and honorary members who are nominated by the [REDACTED] and confirmed by the membership".

[REDACTED]

Enclosure I

"Members shall be elected by the Board of Directors. An affirmative vote of a majority of the Directors shall be required for an election".

The attachment to form 1023, "Applicant Member Qualifications," states that those applying for membership must undergo a joint inspection by two or more Board members. Upon completion of the inspection, the board may approve or decline provisional membership. After one year completed as a provisional member, another inspection is conducted and the board may approve the provisional member for membership. The membership fee amounts to \$ [REDACTED] paid initially and an additional \$ [REDACTED] paid after one year as a provisional member.

All current member [REDACTED] are inspected every three years. If a [REDACTED] is inspected and judged deficient in its operation for meeting the qualifications of [REDACTED] the [REDACTED] may be placed on probation for one year. The [REDACTED] will be notified of the problem areas and will be required to submit in writing an acknowledgement of these areas and how the [REDACTED] plans to rectify them. The [REDACTED] will be re-inspected during the probation period, and if the problems still exist, the Board of Directors may then remove the ranch from active membership.

The application form indicates that the purpose of the organization is to advertise and promote [REDACTED] member [REDACTED] through magazines, newspapers, pamphlets, internet and otherwise. You indicate that the organization has a cooperative marketing agreement with members. A directory of approved ranches of the [REDACTED] is published each year. The directory contains descriptions of each of the member [REDACTED] and a map indicating each of their locations. The directory is marketed as part of a vacation guide to potential visitors. Only members of the organization are included in the directory.

Your board of directors is responsible for inspections of [REDACTED] to ensure that member [REDACTED] are operating at a high standard of character and efficiency. The inspections conducted by your board focus on the following factors:

Variety of activities and services with a [REDACTED] image

Facility is clean and well-maintained, and safe

Surroundings of facility project a [REDACTED]

Appearance and behavior of staff and management project [REDACTED]

[REDACTED]

Enclosure I

and attitude of concern and friendliness

Horses and riding program have a great concern for safety, sound horse knowledge, proper horse management and adequate horses and trails

Integrity in marketing

Meals and service should be of good quality

Your board meets at a minimum seven times per year. You hold a convention twice per year. The conventions provide educational services to members as well as provide an opportunity for members to be involved in making marketing decisions and sharing ideas.

The financial data submitted with the application form indicates that the organization is primarily funded by membership dues and assessments. The organization is also funded through commissions from [REDACTED]. This organization has a contractual agreement with the association which allows a minimal commission to be paid when guests of member [REDACTED] use the travel agency to make their travel arrangements. The commissions from [REDACTED] accounted for [REDACTED] percent of total revenue for the year ended [REDACTED].

The organization received an additional [REDACTED] percent of total revenue for the year ended [REDACTED], through a contract with [REDACTED], a long distance phone service provider. The association receives a [REDACTED] and [REDACTED] percent commission on the long distance charges paid by member ranches. The organization also receives a \$[REDACTED] a page fee from members for providing them with mailing lists. The only remaining sources of income to the organization are convention receipts, miscellaneous income and investment income.

The expenses of the organization consist primarily of marketing expenses including advertising, printing, etc. Approximately [REDACTED] of the income received by the association through dues and assessments is expensed on cooperative marketing for member [REDACTED].

Section 501(c)(6) of the Internal Revenue Code of 1986 provides for exemption from Federal Income Tax of business leagues not organized for profit, no part of the net earnings of which inures to the benefit of any shareholder or individual.

Enclosure I

Section 1.501(c)(6)-1 of the Income Tax Regulations states, in part: "A business league is an association of persons having some common business interest, the purpose of which is to promote such common interest.... It is an organization of the same general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons."

Revenue Ruling 56-84, 1956-1 CB 201 held that an organization operated primarily for the purpose of promoting, selling, and handling the national advertising in its members' publications, was engaged in the performance of particular services for individual members as distinguished from activities for the improvement of the business conditions of its members as a whole and, therefore, was not entitled to exemption from Federal income tax as a business league under section 501(c)(6) of the Code.

Revenue Ruling 59-234, 1959-2 CB 149 held that a real-estate board whose primary purpose or activity is the operation of a multiple-listing system is considered to be rendering particular services for its members and is not exempt from Federal income tax as an organization described in section 501(c)(6) of the Code.

Revenue Ruling 64-315, 1964-2 CB 147 held that an association of merchants whose businesses constitute a shopping center expends its funds and engages exclusively in advertising which includes the names of member merchants and their merchandise in order to attract customers to the shopping center is not entitled to exemption from Federal income tax as an organization described in section 501(c)(6) of the Code.

Revenue Ruling 65-14, 1965-1 CB 236 held that an organization formed to promote the tourist industry in its area and whose principal activity is the publication of a yearbook consisting largely of paid advertisements for its members is not entitled to exemption from Federal income tax under section 501(c)(6) of the Code.

Revenue Ruling 67-77, 1967-1 CB 138 held that an organization composed of dealers in a certain make of automobile in a designated area, which was organized and operated for the primary purpose of financing general advertising campaigns to promote, with funds contributed by the members, the sale of that make of automobile is not entitled to tax exemption under section 501(c)(6) of the Code as a business league. The organization was held to be performing services for its members by advertising the make of automobile sold by its members.

[REDACTED]

Enclosure I

Revenue Ruling 76-409, 1976-2 CB 154 held that a nonprofit organization of individuals in the business of furnishing finance adjusting services, which assigns exclusive franchise areas to its members and publishes and distributes to their potential customers a directory containing members' names and addresses, is performing particular services for its members and does not qualify for exemption under section 501(c)(6) of the Code.

Your organization asserts that you qualify for tax exemption under section 501(c)(6) of the Code because you promote the [REDACTED] industry as a whole.

Based on the facts presented above, we hold that your organization does not qualify for tax exemption under section 501(c)(6) of the Code because you are performing particular services for your members rather than promoting [REDACTED] industry as a whole.

Your organization exhibits similar characteristics to the organizations described in Revenue Rulings 56-84, 64-315 and 67-77 because your organization's primary activity is to advertise and promote [REDACTED] through magazines, newspapers, pamphlets, internet and otherwise. [REDACTED] percent of your organization's income is spent on cooperative advertising. All of your advertisements include the names and addresses of members and a description of the services provided by each member ranch. Only member [REDACTED] are included in advertisements.

Your organization is producing an annual vacation guide, which is similar to the tourist guidebook published by the organization described in Revenue Ruling 65-14 and the annual directory published and distributed by the organization described in Revenue Ruling 76-409. Like the guidebook and annual directory, the vacation guide published by your organization largely consists of member advertisements which include the names and addresses of members and a description of [REDACTED]. Only [REDACTED] are portrayed in the vacation guide.

Your organization is similar to the organization described in Revenue Ruling 59-234 because, like the organization described therein, you are performing particular services for members. The organization described in Rev. Rul. 59-234 was performing particular services for members by operating a multiple listing system. Your organization is performing particular services by conducting cooperative advertising through the vacation guide.

Your organization is primarily engaged in cooperative advertising activities for your members. Your organization's advertising activities

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Enclosure I

constitute the performance of particular services for members.
Accordingly, you do not qualify for tax exemption under section 501(c)(6)
of the Code.